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FM USOFFICE PRISTINA

TO RUEHC/SECSTATE WASHDC IMMEDIATE 7933
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RUCNDT/USMISSION USUN NEW YORK PRIORITY 1384
RHMFIASS/CDR USEUCOM VAIHINGEN GE PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 03 PRISTINA 000036

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FOR ACKER

E.O. 12958: DECL: 01/22/2018

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KV, YI

SUBJECT: KOSOVO: COM ADVISES FINANCE MINISTER SHALA ACTION
ON BUDGET, KOSOVO SERB PROJECTS, AND POST-STATUS PLANNING

REF: 07 PRISTINA 829

Classified By: COM TINA KAIDANOW FOR REASONS 1.4 (B) AND (D)

¶1. (C) SUMMARY: In a January 15 meeting with new Minister of Economy and Finance Ahmet Shala, COM emphasized the importance of demonstrating government support for the Kosovo Serb community through implementation of meaningful projects in minority areas, with real budgetary resources behind them, pointing out that this would be a real test of Kosovo's commitment to support its minorities. She also urged continued fiscal responsibility and restraint and encouraged Shala to engage his ministerial colleagues in active dialogue during the ministry's budget review process in order to develop a coherent, consolidated and prioritized budget plan that can be presented to the Prime Minister as already vetted through and supported by the ministries. COM noted that the desire to "fix" all of the problems in the Kosovo Electric Corporation (KEK) could quickly bust Kosovo's budget, and a meeting with new Minister of Energy to outline short- and long-term priorities to address KEK's problems should happen soon. COM further warned that contingency planning should intensify in order to deal with any punitive measures taken by Serbia after status that could create unexpected expenditures. END SUMMARY.

¶2. (C) COM met new Minister of Economy and Finance (MFE) Ahmet Shala on January 15, noting that it is a welcome sign of the new government's serious intent that well-regarded Shala has been appointed to the position. Shala was previously Deputy Managing Director of Socially-Owned Enterprises with the Kosovo Trust Agency, where he faced intense public scrutiny, but successfully oversaw the privatization of many of these enterprises. COM acknowledged the myriad tasks requiring Shala's attention and action in the coming days, and emphasized the need to assess and prioritize key goals as soon as possible.

Ahtisaari and Serb Minority Projects are Top Concerns

¶3. (C) Shala noted that he is already preparing to assess goals, workplans and short-term priorities in consultation

with other government colleagues. An immediate priority stipulated by Prime Minister Thaci in a recent meeting with all ministers was finalization of the Ahtisaari package and of all status-related legislation. Shala noted that the new government needs to represent all members of the Kosovo community, minority communities as well as Kosovo Albanians. The MFE is ready to assume this role by financing projects that will build Kosovo's future and promote democracy. Shala insisted that the Kosovo people are ready for this to happen, and even some Kosovo Serbs are ready for this change. The MFE has been tasked, he added, with identifying minority projects that will truly benefit Serbs, and reassure them that their decision to remain in Kosovo is the right choice. Minister Shala expressed optimism that these projects will be able to lessen the political pressure Serbs feel within their own communities. While the world looks to us to take action, Shala continued, the government needs to ask Kosovo Serbs how they can be participants without looking like traitors to their communities. Shala asked COM to encourage Serbs and other minority groups to reach out to the government, so the government can accommodate them.

¶4. (C) COM acknowledged the difficulty of finding Serbs willing and able to resist strong community pressure against participation in the Kosovo government, and agreed this is a crucial challenge. She stressed that proving Kosovo can take care of its minority communities was crucial, and emphasized again that the test would be concrete projects with solid funding for Serb areas. These projects should not require huge sums of money, but they will come under scrutiny and require significant political resolve. COM reiterated that USOP is ready to provide political and technical support and would work with the ministry to identify appropriate

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projects. (Note: USOP is preparing specific ideas in this regard that it will soon take up with both Shala and PM Thaci. End Note.)

Provide Assurance to International Community, Assess Priorities

¶5. (C) Minister Shala recognized that the new government, and particularly the MFE, would face intense public scrutiny during the first 100 days of the Thaci administration. He said he needed to determine priorities and design action plans, as the IMF, World Bank and international donors would be watching and making requests. Shala asserted that the MFE would act and speak in a way that would inspire confidence and gain the blessing of the international community. Above all, Shala said he did not want anything the MFE does to cause nervousness in the international community.

¶6. (C) COM pointed out that communication would be key, noting that many of the new ministers may find it difficult to focus on short-term priorities, including the budget. COM encouraged Shala to actively engage his ministerial colleagues and their budget personnel in a dialogue to develop a cohesive plan with concrete suggestions to present to the Prime Minister. She also asked Shala to give the international community a sign that the MFE would not start from scratch and would honor previous commitments to fiscal responsibility and restraint, even intensifying those efforts, if possible.

¶7. (C) Shala promised to be inclusive and not work in isolation from the other ministries. He noted that he and Deputy Minister Bedri Hamza have already identified areas requiring attention, such as tax policy and tax administration reform, and he expected to have an action plan to address deficiencies very soon. Shala previewed that the ministry's priorities would be ranked with an eye toward a post-status donor conference, as well as the need to identify reforms for medium-term economic sustainability.

The Promises of KEK

¶ 8. (C) Referring to promises by PM Thaci during the election to provide a 24-energy energy supply, COM suggested they would be difficult, if not impossible to keep. Past funding given to KEK to address its problems had not yielded many positive results, and the temptation to try to "fix" everything could easily become a budget buster. COM urged Shala to meet with the new Energy Minister very soon to establish limited funding priorities from a KEK managerial perspective, based on what makes sense for Kosovo's budget. She acknowledged the desire for positive and demonstrative changes at KEK, but cautioned that they would take time and require political will and significant expenditure. While many Serbs are not currently paying for electricity, COM warned that attempts to normalize the payment system now, so close to status resolution, could cause the government unnecessary trouble. COM concluded that now is the time to emphasize commitment to regularized payments and encourage energy conservation in the rest of Kosovo. Shala said that he had already met with the Minister of Energy Shiroka-Pula, and they would meet again soon to discuss long- and short-term priorities. He also agreed that it would be best to address Serb enclave energy payment issues in the future, perhaps as part of a larger donor discussion in relation to other projects.

Importance of Post-Independence Contingency Planning

¶ 9. (C) COM highlighted the prospect of punitive actions by Serbia following an independence declaration. Though it is unclear exactly what Belgrade might do, there would certainly be budgetary implications, which would require additional spending in areas not previously considered. Worst-case scenarios must be planned for, including the possibility that

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Serbia would close the border, disrupting trade and movement of people, and cut electricity transmissions. COM emphasized the need for intensified and continuing contingency planning, and for Shala to seriously consider the amount of money kept in reserve to address the possibility that the government might need to subsidize food and purchase additional energy imports.

Shala Already Making Contingency Plans

¶ 10. (C) During an informal discussion immediately following COM's call, Shala noted to EconOff and Treasury Adviser that he and his deputy have already begun contingency planning discussions, including an assessment of budget resources still unallocated that could feasibly be used for an emergency situation or even placed immediately in reserve. Shala expressed concern over the possibility of sabotage to the Ibar canal system post-status. (As reported in reftel, the canal system supplies essential cooling water to the KEK Kosovo B power plant.) Noting that Kosovo B could run for a maximum of six hours after being cut off from the canal, Shala planned to approach KEK about installing two or three pumps along the Sitnica river, which runs close to the canal at certain points. If sabotage occurred, the pumps would presumably be able to pump water directly into the remaining, intact portion of the canal system.

¶ 11. (C) Shala said he would convene a meeting with the Kosovo business community to discuss the impact of Serbia closing the border, including the possibility of developing new trade relationships with regional suppliers and re-routing goods through Macedonia. EconOff encouraged Shala to meet with his counterparts in neighboring countries to assess alternative sourcing if punitive measures are taken. This sort of proactive planning would help smooth the way for assistance requests and alternative routing measures. Shala said he would appreciate anything Washington could do to discourage Serbia from implementing any punitive measures.

Comment

¶12. (C) New Finance Minister Shala is one of PM Thaci's best cabinet choices. From his previous work with the Kosovo Trust Agency, Shala gained a reputation from the international community here as a serious and able public servant. COM's initial meeting with him was an opportunity to reinforce the messages conveyed to PM Thaci that finalizing Ahtisaari legislation and reaching out to the Serb community are issues of immediate concern and a top governmental priority. While the new minister will face challenges and pressures from myriad sources, prioritizing and preparing for post-status needs -- both expected and unexpected -- will be critical in the first several weeks of his tenure. The key to success will be Shala's ability to engage his ministerial colleagues and coordinate efforts. We will support him strongly in this effort.

KAIDANOW